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TAGS: [ECON](#) [EFIN](#) [PGOV](#) [VE](#)
SUBJECT: CHAVEZ VISIT TO HAVANA LEAVES PLETHORA OF ECONOMIC
AGREEMENTS

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Classified By: ECONOMIC COUNSELOR RICHARD M. SANDERS FOR REASON 1.4 D

SUMMARY

1. (C) In Havana April 28, Presidents Hugo Chavez of Venezuela and Fidel Castro of Cuba signed a series of economic agreements which will assertively strengthen trade between the two countries. In addition to sending USD 412 million of various products duty free to Cuba, Venezuela will also increase its petroleum shipments from 53,000 barrels per day (bpd) to as much as 90,000. The GOV also plans to open an office of state-owned petroleum company PDVSA and state-owned commercial Venezuelan Industrial Bank (BIV) in Havana, respectively to coordinate oil shipments to the Caribbean and to finance imports and exports of products between the two countries. These proposals, which have been met with criticism, are the first tangible steps associated with the ALBA, Chavez's barely defined counter-proposal to the FTAA. The oil deal, which the most substantive, and the BIV plan add up to further Venezuelan subsidization of Cuba, its close political partner. END SUMMARY.

THE 49 AGREEMENTS

2. (U) Presidents Chavez and Castro signed approximately 49 agreements in Havana on April 28, on various economic themes, covering areas such as energy, oil, nickel, agriculture, furniture, shoes, textiles, toys, lingerie, tires, construction materials, electricity, transportation, health, and education. Cuba agreed to buy USD 412 million of various Venezuelan goods and import them duty-free, and a goal has been set to increase binational trade from USD 1.5 billion in 2004 to 1.75 billion in 2005. The GOV will open a branch of state bank BIV, capitalized with USD 400 million to finance trade between the two countries - which, rather than using a Cuban bank, could provide easier access to cash for many Cuban state enterprises - while Cuba will open an official Banco Exterior de Cuba in Caracas, though its purpose was not stated. A total of eleven co-state-owned companies are slated to be formed. Castro praised the agreements, opining that "Both of our countries are going to show what a just and liberating integration, one that benefits both people, is all about."

BUT OIL IS THE FOCUS

3. (U) The central focus of the deals, though, appears to be oil, with the establishment of PDVSA-Cuba and the acknowledgment of an increase in oil shipments to Cuba from 53 thousand bpd to between 80 and 90 thousand bpd. Rafael Ramirez, Venezuelan Minister of Energy and Petroleum and President of state oil company PDVSA, said at the ceremony, "Since 2000, Venezuela has officially supplied 53,000 barrels per day of crude oil and petroleum products to Cuba under very favorable financing terms, but the supplies have increased considerably since the consolidation of President Chavez in power," noting that shipments had already been reaching 90,000 bpd prior to the signing. Moreover, as Ramirez said, PDVSA "plans to use Cuba as a center for its operations in the Caribbean," and to help develop oil projects in Cuba. Ramirez said, "It's logical to serve from here all of the Caribbean islands, which are small and very dispersed, and serving them from Venezuela doesn't make much sense." PDVSA also plans to provide refining and marketing assistance, and may refurbish the Soviet-era Cienfuegos refinery. In exchange for the increased oil shipments, Cuba agreed to increase the number of doctors in Venezuela by 17,000 (to 30,000 total), and to help train up to 45,000 Venezuelan doctors in Venezuela and 1000 more in Cuba. The new PDVSA office was criticized immediately by Chavez

opponents. Humberto Calderon, ex-president of PDVSA, told the press it "makes absolutely no sense." Economist Francisco Faraco predicted in an op-ed an even greater lack of transparency, and that "one will never know what happens there."

WHAT IS THE ALBA? IT'S NOT THE FTAA

14. (U) These agreements are the first actual agreements ever signed under the umbrella of ALBA, the Bolivarian Alternative for the Americas promoted by Chavez. Intended to be a counter-point to the FTAA (ALCA in Spanish), ALBA has yet to be more than a rallying theme for radical Latin American "socialists" and anti-systemics. Among the personalities at this Havana ALBA conference were Bolivia's Evo Morales and El Salvador's Schafik Handal. Chavez criticized the FTAA, saying it "is integration to destroy us." He expounded his idea of the ALBA somewhat, noting that "We're thinking about 100,000 doctors, but not just for Venezuela, but later on there will be doctors from many other countries in our America, to declare war as we have declared war, on war, on misery, on sickness, on exclusion. That is the ALBA." He also expressed that "It must go beyond Cuba and Venezuela," and invited the US and Canada to join.

COMMENT

15. (C) This was the first public acknowledgment that oil shipments to Cuba had increased, something which post reported over a year ago (reftel), though Ramirez's comment implies that the increase only dates from August 2004, after Chavez won the recall referendum. The increase provides an excellent opportunity to subsidize Cuba and for corruption - since Cuba uses only a portion of the oil for domestic use, the rest is sold to international buyers, allowing "intermediaries" such as PDVSA execs to collect commissions on the sale. The GOV argument for opening the center lacks substance. While Cuba is closer than Venezuela to some Caribbean - as well as Central American, which were curiously not named - countries, stopping in Cuba en route will only add time and expense to the process. We expect that most of the other trade agreements cited, on furniture, toys, etc., are window dressing and will not lead to much increased trade between the two countries. The oil deal, crucial to the political relationship Venezuela and Cuba, marks an increase in the ongoing Venezuelan subsidy of Cuba.
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